

Message Text

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TO USLO PEKING PRIORITY

C O N F I D E N T I A L STATE 287196

EXDIS

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TAGS: ESTC, ETRD, CH, US

SUBJECT: LITTON CASE: RESPONSE TO MACHIMPEX

REF: PEKING 2485, PEKING 2515

1. DEPARTMENT WISHES TO TAKE ADVANTAGE OF CHINA NATIONAL
MACHINERY IMPORT AND EXPORT CORP. (MACHIMPEX) GENERAL
MANAGER LIU CHING'S DIRECT APPROACH TO USLO ON THE LITTON
CASE. BEGIN FYI: LITTON ORIGINALLY PROPOSED TO SELL A
\$6 MILLION MARINE SEISMIC DATA SYSTEM THAT INCLUDED
STREAMER CABLE AND A FLOATING POINT ARRAY PROCESSOR
COMPUTER. THESE LATTER TWO CONTROVERSIAL ITEMS HAVE BEEN
DELETED BY LITTON AND THE USG NOW HAS THE REMAINING
COMPUTER SEGMENT UNDER PRIORITY REVIEW. DEFENSE AND
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COMMERCE HAVE RECOMMENDED APPROVAL OF THE SALE SUBJECT TO
SOME TECHNICAL CONDITIONS AND TO SO-CALLED COCOM NOTE 12
SAFEGUARDS (NOTE 12(D) SPECIFIES THAT THE IMPORTE- IS TO
CERTIFY IN WRITING THAT THE SUPPLIER HAS THE RIGHT OF
ACCESS TO THE COMPUTER, WHILE NOTE 12(E) STIPULATES THAT
THE SUPPLIER IS TO AGREE TO MONTHLY VISITS FOR TWO YEARS
AND QUARTERLY FOR FOUR MORE YEARS TO ASCERTAIN CIVIL END

USE OF THE LICENSED EQUIPMENT). THE CASE IS BEFORE THE EXPORT CONTROL OPERATING COMMITTEE CHAIRED BY COMMERCE,

BUT WILL PROBABLY BE APPROVED DECEMBER 2, WITH STATE CONCURRING. THE CASE WILL STILL REQUIRE COCOM APPROVAL PRIOR TO FORMAL ISSUANCE OF AN EXPORT LICENSE. WE WILL ADVISE LITTON INFORMALLY OF LICENSING CONDITIONS IMPOSED BY USG. END FYI.

2. THE DEPARTMENT IS PREPARED TO FACILITATE THE PROCESSING OF EXPORT CONTROL CASES IN WHICH THE CHINESE DIRECTLY EXPRESS THEIR INTEREST TO US. AS USLO MAY BE AWARE, THE USG HAS INDICATED TO THE CHINESE, AT AUTHORITATIVE LEVELS, OUR WILLINGNESS TO BE HELPFUL IN FINDING WAYS TO HANDLE CERTAIN SPECIAL TRADE MATTERS, SUCH AS THE SALE OF SOPHISTICATED COMPUTERS, IN THE LIGHT OF OUR VARIOUS LAWS AND REGULATIONS. MACHIMPEX APPROACH TO USLO IS TO OUR KNOWLEDGE THE FIRST INSTANCE IN WHICH THE CHINESE HAVE RAISED A SPECIFIC CASE OF THIS SORT DIRECTLY WITH THE USG.

3. OUR DESIRE TO HANDLE LICENSING OF COMPUTER EXPORTS TO THE PRC EXPEDITIOUSLY IS COMPLICATED BY THE CHINESE REFUSAL SO FAR TO CERTIFY IN WRITING THAT THE SUPPLIER IS TO HAVE RIGHT OF ACCESS TO THE COMPUTER FACILITY. THE PRC IS THE ONLY COMMUNIST COUNTRY THAT REFUSES TO PROVIDE CONFIDENTIAL

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SUCH CERTIFICATION. IT IS THEREFORE HARDER FOR THE USG TO JUSTIFY SALES ON THE BASIS OF SAFEGUARD ARRANGEMENTS TO THE PRC THAN TO OTHER DESTINATIONS. THIS IS A MAJOR REASON THAT COMPUTER CASES INVOLVING THE PRC ARE SUBJECT TO LENGTHY DELAYS.

4. OUR ABILITY TO FACILITATE THE PRC'S DESIRE FOR RAPID LICENSING OF EXPORT SALES TO CHINA IS, THEREFORE, IN PART CONTINGENT ON WHETHER WE CAN WORK TOWARD MORE SATISFACTORY SAFEGUARD ARRANGEMENTS WITH THE CHINESE WHICH MEET THE NATIONAL SECURITY CONCERNS OF OURSELVES AND OUR ALLIES. RELAXATION OF SAFEGUARD REQUIREMENTS FOR THE PRC AT THIS TIME WOULD NOT BE CONSISTENT WITH PRESENT POLICY GUIDELINES. WE ARE, HOWEVER, PREPARED TO SEEK WAYS THAT WILL ASSIST THE CHINESE TO COMPLY WITH THE INTENT OF THESE REGULATIONS WHILE TAKING INTO ACCOUNT THEIR OWN SPECIAL SENSITIVITIES PRIOR TO FULL NORMALIZATION OF US-PRC RELATIONS.

5. WE BELIEVE IT WOULD BE USEFUL TO USE THE OPENING PROVIDED BY MACHIMPEX TO SIGNAL OUR WILLINGNESS TO EXPLORE WITH THE CHINESE POSSIBLE PROCEDURES THAT WOULD FACIL-

ITATE OUR ABILITY TO EXPEDITE EXPORT CONTROL CASES INVOLVING THE PRC. ONE METHOD WOULD BE FOR THE CHINESE TO PROVIDE THE WESTERN SELLER WITH A WRITTEN STATEMENT

AUTHORIZING HIM CONTINUED ACCESS TO THE HARDWARE (TIME PERIOD UNSPECIFIED). (NOTE THAT STATEMENT NEED NOT BE ADDRESSED TO USG.) SUCH A GENERAL STATEMENT WOULD FULFILL THE MOST IMPORTANT AND SENSITIVE ASPECT OF THE REQUIREMENTS OF NOTE 12(D) OF THE COCOM REGULATIONS AND WOULD SIGNIFICANTLY AFFECT OUR ABILITY TO APPROVE SALES OF ADVANCED COMPUTERS TO THE PRC. IF THE CHINESE ARE PREPARED TO EXCHANGE VIEWS WITH US ON THIS PROBLEM, WE WOULD INTEND TO EXPLORE WITH THEM POSSIBLE PROCEDURES ALONG THESE LINES.
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6. ACCORDINGLY, IN YOUR RESPONSE TO MACHIMPEX ON THE LITTON SALE, YOU MAY WISH TO MAKE THE FOLLOWING POINTS:

--AS A RESULT OF CHINESE INTEREST, THE USG IS GIVING PRIORITY ATTENTION TO THE LITTON CASE.

--WE ARE PREPARED TO DISCUSS WITH THE CHINESE EXPORT CASES IN WHICH THEY EXPRESS A DIRECT INTEREST, AND TO MAKE VIGOROUS EFFORTS TO FIND WAYS OF ACCOMMODATING OUR RESPECTIVE POSITIONS. IT MAY BE POSSIBLE IN THIS FASHION TO HANDLE EXPORT CONTROL ISSUES MORE QUICKLY.

--HOWEVER, OUR ABILITY TO FACILITATE RAPID LICENSING OF EXPORT CASES IN WHICH THE CHINESE HAVE AN INTEREST WILL FREQUENTLY DEPEND UPON THE PRC'S WILLINGNESS TO GUARANTEE TO THE SELLER THE ROUTINE VISITATION PRIVILEGES NECESSARY TO INSURE THAT THE ITEM IN QUESTION WILL BE USED FOR THE STATED PURPOSE.

--THE USG HAS NO WISH TO CREATE ARTIFICIAL BARRIERS TO TRADE BUT ONLY TO PROTECT LEGITIMATE NATIONAL INTERESTS. IF THE CHINESE SIDE IS INTERESTED, WE WOULD BE PREPARED TO HAVE US AND PRC REPRESENTATIVES MEET FOR INFORMAL EXCHANGES ON US LICENSING REQUIREMENTS TO SEE IF WAYS CAN BE FOUND TO SPEED UP THE LICENSING OF EXPORT SALES TO CHINA.

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